

RESPONSES TO THE PROPOSED

SIMPLIFIED START-UP OF TIERED RATES

The proposed simplified start-up of tiered rates released by BPA on Sept 26 is responsive to many of the issues raised by public power regarding the transition from melded to tiered rates. However, there are certain issues that this proposal did not fully address, but which could be resolved with the following enhancements.

Proposal Revisions

1. Initial Tier 2 Commitment – Except for certain rates discussed in paragraphs 3 and 5 below, the timing of the initial commitment to Tier 2 rates should be revised to Sept 2010.

Rationale – The need for a 3 year notice period stemmed from BPA's need to acquire actual generation to serve Tier 2 load. Since the initial Tier 2 rate alternative proposed by BPA will be market based, the need for such a long lead-time is diminished. This modification will also result in the customers having some initial information regarding the pricing of BPA's Tier 2 rate, so the customers can make an informed decision on where to procure power above their HWM for the 3 year period.

2. Tier 2 Rate Structure Availability – The structure of the BPA's proposed Tier 2 rate that will be used to serve load during the 2012-14 period (*e.g.* the source of the Tier 2 power, whether short-term market purchases or longer term purchases, and the terms and conditions of the Tier 2 rate) should be developed and available to the customers on the same timeline as other products, August of 2008.

Rationale – Since this will be the only generally available rate during the 2012-14 period, it is important that it be developed by the time contracts are offered so that customers will be able to make an informed judgment regarding the service options available to them for this three year period.

3. Renewable Products and RECs – At initial contract execution in Dec 2008, BPA should permit customers the choice to give the appropriate notice (currently 3 years as proposed by BPA) and make the appropriate commitment (currently 10 years as proposed by BPA) to enable BPA to acquire renewable resources and begin related deliveries in October 2011 under the new contracts.

Rationale – To the extent there are customers ready and willing at initial contract execution to make the contractual commitments necessary to support long-term

renewable resource acquisition by BPA, the simplified transition proposal should accommodate those requests. There is no compelling policy objective served by making such customers wait two years to make such a commitment. Customers will need sufficient information from BPA at time of contract execution to make an informed decision about this tier 2 rate alternative, but it is understood that the rate itself will not be known.

4. Augmentation RECs – If BPA acquires renewable resources in order to fulfill the up to 300 aMW augmentation commitment for Tier 1 service, the RECs associated with such renewable resources should be first made available to Tier 1 customers.

Rationale – Regardless of the simplified implementation of the Tier 2 selection process, BPA may still have the obligation to augment the FBS starting on the first day of service under tiered rates. To the extent that such augmentation includes the purchase by BPA of renewable resources and the associated RECs, those RECs should be first made available to the purchasers of Tier 1 power that have RPS obligations.

5. Load Growth Product and Shared Rate – The commitment to the Load Growth Product and to the Shared Rate should be made when the initial contract is executed (Dec 2008), and service under these alternatives should commence starting in FY2012.

Rationale – While the Load Growth Rate and Shared Rate are distinct rate options, they are related in that they both involve a long-term customer choice to rely on BPA to serve the customer's Tier 1 and Tier 2 requirements. Because these rates involve a long-term commitment to BPA, it makes sense to commence service under them at the earliest date, rather than forcing customers willing to commit to this option to wait until after an "interim period" of market-based Tier 2 service. Further, since a customer's choice to take service with either of these rates involves a commitment to how its Tier 1 will be served, there should be no opportunity to select these rates once the initial contract execution period has passed. There should be an opportunity to leave the Shared Rate pool or Load Growth Rate with no stranded costs to other pool members.